

Message Text

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ORIGIN EA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 DODE-00

PM-03 H-02 INR-07 L-03 NSAE-00 PA-01 PRS-01 USIA-06

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TO USLO PEKING

INFO AMCONSUL HONG KONG

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E.O. 11652: N/A

TAGS: EFIN, CH, US

SUBJECT: BANK OF CHINA PERMITS FORWARD RMB PURCHASES
FOR DOLLARS

REF: PEKING 1398

1. DEPARTMENT HAS LEARNED THAT BANK OF CHINA NOTIFIED
NEW YORK BRANCH OF CHARTERED BANK (VIA CHARTERED'S USUAL
HONG KONG CHANNELS) ON JULY 30 THAT CHARTERED MAY HENCE-
FORTH CONCLUDE FORWARD RENMINBI (RMB) CONTRACTS FOR DOLLARS
IN TRANSACTIONS WITH US NATIONALS. BEFORE BEING PERMITTED
TO ENTER INTO FORWARD RMB CONTRACT, US TRADERS CAN BE RE-
QUIRED TO JUSTIFY TRANSACTION BY PRODUCING TRADE CONTRACT
WITH ONE OF THE PRC FOREIGN TRADE CORPORATIONS DENOMINATED
IN RMB (PRC AUTHORITIES REQUIRE THIS TO PREVENT SPECULATION
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IN RMB.) SIX MONTHS IS MAXIMUM PERIOD FOR FORWARD COVER.
ALTHOUGH CHARTERED IS THE ONLY BANK WE KNOW THAT IS OFFER-
ING THIS SERVICE, WE ASSUME THAT BOC WILL EXTEND PRIVILEGE
TO OTHER THIRD COUNTRY BANKS OPERATING IN THE US. WE

UNDERSTAND COSTS--THE SAME AS THE RMB/POUND FORWARD RATES--
WILL BE AS FOLLOWS:

RATE	PERIOD (MONTHS)
.6	1
1.2	2
1.8	3
2.2	4
2.6	5
3.0	6

2. COMMENT: WE FIND IT INTERESTING THE BOC WOULD
TAKE THIS STEP AT THE PRESENT TIME. AS POSTS AWARE,
MANY AMERICAN IMPORTERS HAVE IN THE PAST COMPLAINED ABOUT
THE EXCHANGE RATE RISK THEY MUST ASSUME IN RMB-DENOMI-
NATED CONTRACTS DUE TO THE NONCONVERTIBILITY OF THE RMB;
PRESUMABLY, PRC ACTION WAS TAKEN AT LEAST IN PART IN
RESPONSE TO THESE COMPLAINTS, AND IS SEEN BY CHINESE
AS AN EXPORT PROMOTION DEVICE. IN THAT SENSE, WE WOULD
CONSIDER THE OFFERING OF RMB FORWARD COVER TO BE A STEP
COMPARABLE TO PRC DECISION BEFORE SPRING CANTON FAIR TO
PERMIT, WITH CERTAIN RESTRICTIONS, SELECTED PRC EXPORT
CONTRACTS TO BE DENOMINATED IN DOLLARS. HOWEVER, PRESENT
RATHER STRONG POSITION OF DOLLAR IN WORLD FINANCIAL
MARKETS MAY LESSEN THE IMPACT THAT THIS STEP WOULD OTHER-
WISE HAVE HAD FOR MANY US IMPORTERS AND, CONVERSELY,
DOLLAR'S STRENGTH MAY HAVE BEEN A FACTOR IN CHINESE
DECISION. WHILE IT IS TOO EARLY TO PREDICT REACTION OF
AMERICAN BUSINESS COMMUNITY, WE BELIEVE THAT MANY OF THE
SMALLER IMPORTERS OPERATING ON SLIM PROFIT MARGINS WILL
WELCOME THE NEW SERVICE. INGERSOLL

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